

UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF NEW YORK

COMMODITY FUTURES TRADING
COMMISSION,

Plaintiff,

v.

PATRICK K. MCDONNELL,
and CABBAGETECH, CORP. d/b/a COIN
DROP MARKETS,

Defendants.

Case No. 18-CV-0361 (JBW) (RLM)

ECF Case

**DECLARATION OF CHRISTOPHER GIGILO PURSUANT TO 28 U.S.C. § 1746
IN SUPPORT OF PLAINTIFF’S PROPOSED FINDINGS OF FACTS, CONCLUSIONS
OF LAW, AND FINAL JUDGMENT AGAINST DEFENDANT PATRICK K.
McDONNELL**

I, Christopher Giglio, hereby declare as follows:

1. I am employed as a Senior Futures Trading Investigator by the Division of Enforcement (“Division”) of the Commodity Futures Trading Commission (“CFTC” or the “Commission”), located at 140 Broadway, 19th Floor, New York, NY 10005.
2. I submit this declaration in support of the Commission’s Proposed Findings of Facts, Conclusions of Law, and Final Judgment Against Defendant Patrick K. McDonnell (“McDonnell”) and Final Judgment by Default Against Defendant CabbageTech, Corp. d/b/a Coin Drop Markets, pursuant to Federal Rule of Civil Procedure 55(a) and Local Civil Rule 55.1.
3. I have been assigned to the Commission’s investigation of the Defendant McDonnell and I am fully familiar with the facts related to and documents obtained in the Commission’s investigation and litigation discussed in this declaration.

4. I have previously submitted a declaration in this matter. ECF No. 21.

5. I have testified in this matter on March 6, 2018, and again on July 10 and 11, 2018.

6. As part of my investigatory responsibilities in this matter, I have participated by telephone in the interviews of, and reviewed documents produced by, individuals who invested money with McDonnell (“customers”). I have also reviewed the following:

- a. Business records produced by Google,
- b. Business records produced by Bittrex,
- c. Business records produced by AT&T,
- d. Business records produced by Charter Communications,
- e. Business records produced by J2 Web Services,
- f. Business records produced by Bancorp,
- g. Business records produced by TD Bank, N.A.,
- h. Business records produced by Simple Finance Technology Corp.,
- i. Business records produced by Slack,
- j. Business records produced by Federal Express,
- k. Business records produced by Twitter,
- l. Business records produced by PayPal,
- m. An online video interview with a masked figure that was identified as being McDonnell relating to McDonnell and CabbageTech, Corp.,
- n. Information made available through, and documents obtained from, the Financial Industry Regulatory Authority (“FINRA”),
- o. Information made available through, and documents obtained from, the New York Secretary of State Division of Corporations,

- p. Information made available through, and documents obtained from, CLEAR, an online investigation software operated by Thomson Reuters.

THE DEFENDANT

7. McDonnell is a resident of Staten Island, New York. From 1993 to 1999, he held a Series 7 and Series 63 license with FINRA and was employed at five registered brokerage firms. McDonnell registered and controlled CabbageTech Corp., a New York Corporation. He has never been registered with the Commission in any capacity.

CUSTOMER DEPOSITS

8. Beginning in at least February 2015, McDonnell began soliciting and accepting funds from customers in the United States and foreign countries for various cryptocurrency-related investments. Customers sent these funds to McDonnell via check, wire transfer, PayPal deposit, and through the transfer of multiple virtual currencies, including Bitcoin, Litecoin, Ethereum Classic, and Verge.

9. In total, McDonnell solicited and accepted at least \$457,393.54 from at least 11 customers, through 62 individual deposits, between February 9, 2015 and May 28, 2017. A table listing each of these deposits is as follows:

Customer	Date	Currency	Quantity	1/18/2018 Value
Anthony Dimovski	4/13/2017	USD	\$1.99	\$1.99
Anthony Dimovski	4/16/2017	USD	\$47.52	\$47.52
Anthony Dimovski	4/28/2017	BTC	1	\$11,474.90
Anthony Dimovski	5/28/2017	BTC	0.5	\$5,737.45
Ariel Yabo	4/17/2017	USD	\$1.99	\$1.99
Bailey Grady	5/24/2017	USD	\$99.00	\$99.00
Bailey Grady	5/28/52017	BTC	0.4619459	\$5,300.78
Charles Mills	2/9/2015	USD	\$5,000.00	\$5,000.00
Charles Mills	2/11/2015	USD	\$20,000.00	\$20,000.00
Charles Mills	2/17/2015	USD	\$3,750.00	\$3,750.00
Charles Mills	4/2/2015	USD	\$21,000.00	\$21,000.00

Charles Mills	4/29/2015	USD	\$10,000.00	\$10,000.00
Charles Mills	6/12/2015	USD	\$2,480.00	\$2,480.00
Charles Mills	6/19/2015	USD	\$10,000.00	\$10,000.00
Charles Mills	7/17/2015	USD	\$3,000.00	\$3,000.00
Charles Mills	8/14/2015	USD	\$4,910.00	\$4,910.00
Charles Mills	9/1/2015	USD	\$3,500.00	\$3,500.00
Charles Mills	9/18/2015	USD	\$2,480.00	\$2,480.00
Charles Mills	9/29/2015	USD	\$5,000.00	\$5,000.00
Charles Mills	10/14/2015	USD	\$5,000.00	\$5,000.00
Charles Mills	11/10/2015	USD	\$10,000.00	\$10,000.00
Charles Mills	11/17/2015	USD	\$10,000.00	\$10,000.00
Charles Mills	1/9/2016	USD	\$7,500.00	\$7,500.00
Charles Mills	2/11/2016	USD	\$6,000.00	\$6,000.00
Charles Mills	3/8/2016	USD	\$3,000.00	\$3,000.00
Charles Mills	3/17/2016	USD	\$5,000.00	\$5,000.00
Charles Mills	4/8/2016	USD	\$2,000.00	\$2,000.00
Charles Mills	5/4/2016	USD	\$3,000.00	\$3,000.00
Charles Mills	5/14/2016	USD	\$1,000.00	\$1,000.00
Charles Mills	7/21/2016	USD	\$1,000.00	\$1,000.00
Charles Mills	7/28/2016	USD	\$4,000.00	\$4,000.00
Charles Mills	8/9/2016	USD	\$5,000.00	\$5,000.00
Charles Mills	9/16/2016	USD	\$5,000.00	\$5,000.00
Charles Mills	10/13/2016	USD	\$2,080.00	\$2,080.00
Charles Mills	11/8/2016	USD	\$4,000.00	\$4,000.00
Christopher Drake	5/27/2017	ETC	219.9872767	\$6,641.42
Christopher Drake	5/28/2017	BTC	1	\$11,474.90
Christopher Drake	5/31/2017	ETC	400.0050585	\$12,076.15
Christopher Drake	6/4/2017	XVG	1342634.729	\$153,193.28
David Martin	5/6/2017	LTC	30	\$5,785.20
David Martin	5/12/2017	LTC	30	\$5,785.20
Jacob Sappington	5/25/2017	USD	\$99.00	\$99.00
Jacob Sappington	5/28/2017	BTC	0.45	\$5,163.70
Jake Stainbrook	5/24/2017	USD	\$99.98	\$99.98
Jake Stainbrook	5/28/2017	BTC	1	\$11,474.90
Junor Taylor	2/23/2017	USD	\$4,044.00	\$4,044.00
Junor Taylor	3/2/2017	USD	\$1,327.50	\$1,327.50
Junor Taylor	3/16/2017	USD	\$1,032.50	\$1,032.50
Junor Taylor	3/21/2017	USD	\$1,417.50	\$1,417.50
Junor Taylor	3/28/2017	USD	\$1,000.00	\$1,000.00
Junor Taylor	4/27/2017	USD	\$4,000.00	\$4,000.00
Junor Taylor	5/9/2017	USD	\$4,000.00	\$4,000.00
Junor Taylor	5/18/2017	USD	\$2,000.00	\$2,000.00
Junor Taylor	5/24/2017	USD	\$3,500.00	\$3,500.00

Junor Taylor	6/8/2017	USD	\$3,285.00	\$3,285.00
Martin Newman	2/3/2017	USD	\$4,020.00	\$4,020
Martin Newman	4/19/2017	USD	\$99.98	\$99.98
Richard Brewell	4/25/2017	USD	\$1.99	\$1.99
Richard Brewell	4/27/2017	USD	\$99.98	\$99.98
Richard Brewell	4/27/2017	USD	\$99.98	\$99.98
Richard Brewell	4/29/2017	LTC	70.497	\$13,594.64
Richard Brewell	4/29/2017	LTC	76.297	\$14,713.11
TOTAL				\$457,393.54

This table contains the same data that is found in Trial Exhibit 180.

10. Only one customer ever received a transfer of funds from McDonnell. On May 29, 2017, McDonnell sent Richard Brewell (“Brewell”) 75 ETC. However, there is no indication that such funds were intended as a return on investment or otherwise as a refund. Indeed, Brewell testified at trial that he had received those funds in return for assistance with the Slack group. Trial Transcript 65:6-19. The closing price (as reflected on CoinMarketCap) for Ethereum Classic on May 29, 2017 was \$17.10, meaning that Brewell received \$1,282.50 worth of Ethereum Classic on this date. No other customer received any funds from McDonnell and all funds were eventually misappropriated.

11. Several of the customer deposits that were listed in the above table were made via PayPal. McDonnell received at least \$651.41 from at least seven customers via PayPal between April 13, 2017 and May 25, 2017. A table listing this subset of the customer deposits, which were made via PayPal, is as follows:

Customer	Date	Currency	Quantity	1/18/2018 Value
Anthony Dimovski	4/13/2017	USD	\$1.99	\$1.99
Anthony Dimovski	4/16/2017	USD	\$47.52	\$47.52
Ariel Yabo	4/17/2017	USD	\$1.99	\$1.99
Martin Newman	4/19/2017	USD	\$99.98	\$99.98
Richard Brewell	4/25/2017	USD	\$1.99	\$1.99
Richard Brewell	4/27/2017	USD	\$99.98	\$99.98

Richard Brewell	4/27/2017	USD	\$99.98	\$99.98
Bailey Grady	5/24/2017	USD	\$99.00	\$99.00
Jake Stainbrook	5/24/2017	USD	\$99.98	\$99.98
Jacob Sappington	5/25/2017	USD	\$99.00	\$99.00
TOTAL				\$651.41

12. The customer deposits were for subscriptions to cryptocurrency trading advice programs like RedLiteGreenLite, LTC, for McDonnell to purchase or trade virtual currencies on the customers' behalf, and for memberships in certain virtual currency trading advice groups, one of which was sometimes referred to as the Elite Group.

13. In addition to these identified customer transfers via Paypal, the Paypal records (which were admitted at trial in native form as Ex. 125) indicated that additional funds were transferred to McDonnell by persons other than the abovementioned customers between January 11, 2017 and June 14, 2017. I did not include this amount in the calculations presented herein.

14. Members of groups like the Elite Group were supposed to receive a lifetime of virtual currency trading advice, information, and related services. At least three customers, Christopher Drake, Anthony Dimovski, and Brewell, purchased lifetime memberships to such a group. For these memberships, these customers paid 1 Bitcoin, 1 Bitcoin, and 70.497 Litecoin, respectively, all of which is reflected in the customer deposit table above. These customers received, at most, two months of access to a social media group for these memberships before McDonnell ceased communicating with customers.

VIRTUAL CURRENCY VALUES

15. To assess the value of the virtual currencies that the customers transferred to McDonnell, the Commission relied upon historical pricing data that was published on CoinMarketCap, <https://coinmarketcap.com/>. CoinMarketCap is a website that calculates the market capitalization of multiple virtual currencies by analyzing the price and circulating supply

of the currencies. CoinMarketCap is a reputable, widely-used reference tool in the virtual currency industry and has been cited as a source of information in articles published in *The Financial Times* and *The Wall Street Journal*. Attached as Exhibit 1 are copies of such articles.

16. In order to assess the price of these virtual currencies, CoinMarketCap utilizes data from more than 12,000 virtual currency markets. For example, to establish its published Bitcoin price, CoinMarketCap utilizes data from approximately 400 sources, including some of the world's most popular virtual currency exchanges like Bitfinex, Coinbase, Poloniex, Binance, and Kraken.

17. On July 24, 2018, I compared the real-time Bitcoin price posted on the CoinMarketCap website for each of the abovementioned exchanges to the real-time price that is posted on the exchanges' respective websites and found CoinMarketCap's price to be more than 99.8% accurate. This finding accords with my general perception that prices as reported by CoinMarketCap are generally reliable indicators of the prices being reported by exchanges with public feeds.

18. CoinMarketCap maintains and publishes the daily opening, closing, highest, and lowest price for virtual currencies. For the purposes of calculating customer restitution, the Commission has utilized the January 18, 2018 closing price for the virtual currencies that were transferred to McDonnell by the customers. This is the date on which the Commission filed its complaint against McDonnell. The closing price for each of the relevant virtual currencies on this date, as it is published on CoinMarketCap's website, is as follows:

Currency	Price
Bitcoin (BTC)	\$11,474.90
Litecoin (LTC)	\$192.84
Ethereum Classic (ETC)	\$30.19
Verge (XVG)	\$.0114099

RESTITUTION AND CIVIL MONETARY PENALTY

19. In total, McDonnell solicited and accepted \$457,393.54 from at least 11 customers for virtual currency services and investments.
20. \$457,393.54 is the amount solicited and obtained by McDonnell from the customers.
21. The Commission also requests imposition of a Civil Monetary Penalty of triple the amount of monetary gain to McDonnell. As stated above, the total monetary gain to McDonnell is \$457,393.54, which multiplied by three equals \$1,372,180.62.
22. I declare under penalty of perjury that the forgoing is true and correct.

Dated: New York, New York
July 26, 2018

A handwritten signature in blue ink, appearing to read 'CG', is written over a horizontal line.

CHRISTOPHER GIGLIO

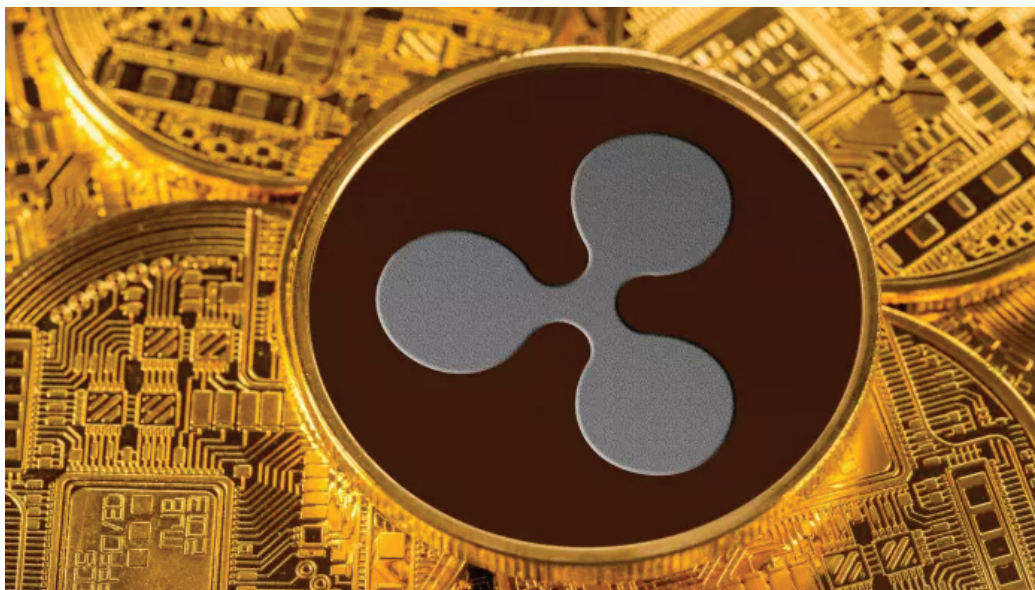
EXHIBIT

1

Cryptocurrencies

Bitcoin rival's rise unnerves banking sector

Volatility of payment settlement group's cryptocurrency poses questions



Ripple's digital coin, XRP, is supposed to 'oil the wheels' of banking but the industry is nervous about the sharp rises and falls in its value © Alamy Chloe Cornish in San Francisco and Martin Arnold in London JANUARY 18, 2018

In October, a five-year-old company called [Ripple boasted](#) that it was one of America's "most valuable start-ups . . . after Uber, Airbnb, Palantir and WeWork".

Although its core finance technology business has not done much disrupting yet, cryptocurrency mania was growing the value of XRP, the digital coin created by Ripple's founders and whose supply the company still controlled. XRP's price rose 36,000 per cent during 2017, challenging bitcoin's market value, giving Ripple an XRP hoard worth \$200bn by Christmas.

XRP is a cryptocurrency outlier. Unlike decentralised, rebellious bitcoin, created post-financial crisis amid distrust of banks, XRP is supposed to grease creaking banking infrastructure, part of the back-office finance technology offered by San Francisco-based Ripple. Brad Garlinghouse, its chief executive, called XRP "the global liquidity solution for payment providers and banks".

But Ripple's golden goose cryptocurrency, whose price has now sagged, raises awkward questions. While its separate technology solutions for fast payment settlement impresses some financiers, XRP's volatility, and [Ripple's ownership](#) of more than half the 100bn XRP ever created, has unnerved banks that evangelists hoped would adopt the asset as a bridge currency.

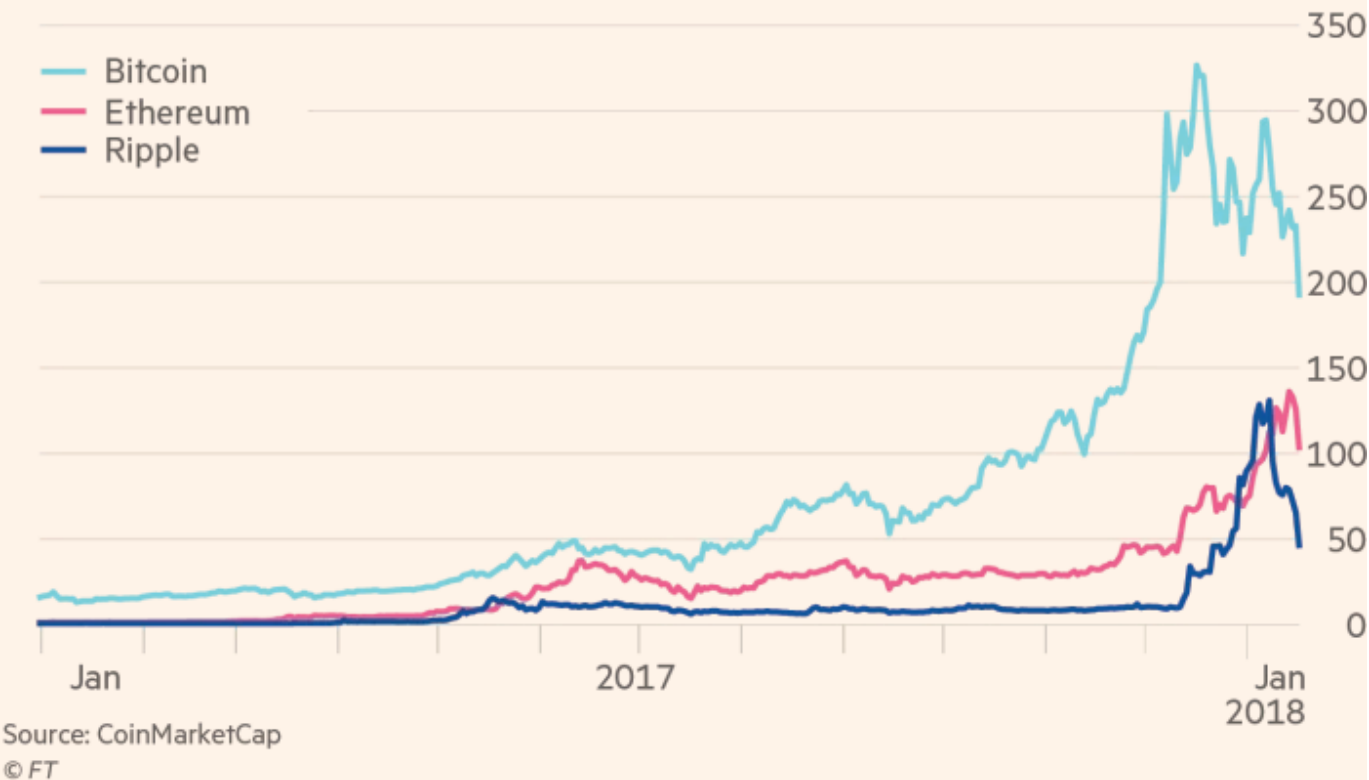
Ripple wants to supplant the international Swift network, which is owned by and connects about 11,000 banks. It promises to accelerate cross-border payments using distributed-ledger, or blockchain, technology that sends messages between banks, while offering XRP as a cheap and

universal bridge currency, to short-circuit the expensive nostro and vostro accounts of traditional correspondent banking.

Think of XRP “like the oil you put in [a car] engine”, says Greg Kidd, Ripple’s former chief risk officer who runs Synthetic Liquidity, a liquidity provider that is trialling XRP by moving small amounts. Banks “really shouldn’t need that much”, he adds.

Volatile cryptocurrencies

Market value of coins in circulation (\$bn)



But some speculators are betting that banks will need a lot of XRP oil as a reserve currency, which, if correct, would see XRP loom large in the global financial system. But if banks are unconvinced that they need to own substantial amounts of XRP — which Ripple’s systems for sending and processing payments do not require — the now \$60bn total market value of circulating XRP coins looks highly speculative.

The enterprise software start-up says more than 100 financial institutions have adopted at least one Ripple product.

Ripple recently announced another pilot project with money transfer group MoneyGram, which will involve XRP. But while it has touted live projects with Santander, a Ripple investor, and American Express, others have hesitated to move beyond tests.

The Financial Times spoke to 16 banks and financial services companies publicly linked to Ripple (two more declined to comment). Most had not yet gone beyond testing, but some were using Ripple's systems for moving real money. For instance, Sweden's SEB bank says it used Ripple software for fast cross-border payments between accounts held by some of its corporate clients; soon, Santander is expected to launch a cross-border payments app using Ripple's technology to clients in Europe and America.

But none of the banks who spoke to the FT had used XRP.

Kansas-based CBW Bank was one of the first partner banks announced by Ripple in 2014. But Suresh Ramamurthi, CBW's chairman, says it has shelved plans to use Ripple's systems until regulatory guidance is clearer.

Some banks shy away from cryptocurrencies such as XRP for fear of being "the first casualty", Mr Ramamurthi adds.

Hank Uberoi, executive chairman of cross-border payments specialist Earthport, works with Ripple to jointly offer their services to financial institutions. "Banks are hesitant to use XRP because they are unsure of the regulatory aspects of it. If money is in transition and the price of XRP collapses in that time, what happens then?" he says.

Ripple's other problem, Mr Uberoi adds, was signing up enough banks to have the scale to seriously challenge Swift. "It is only of value if everyone is connected to the network — like a fax machine, if others don't have one, then it is not much use," he says.

Ripple says: "Enabling the internet of Value is not something we can do alone and it's not something that happens overnight."

A former staffer, who left last year, says Ripple was sometimes hasty to announce that banks were using its technology even if they were testing several blockchain solutions. The former employee describes this as a "survival tactic".

A "vibrant and growing ecosystem of people and businesses . . . are interested in XRP", says Ripple. It says Mexican bank Cuallix uses XRP.

The anxiety of bankers that Ripple might cash in its XRP hoard recently prompted it to lock up 55bn XRP and promise to regulate supply by releasing no more than 1bn XRP every month.

Regardless of whether banks use it, Ripple has benefited handsomely from XRP's rise. Ripple sells XRP to institutions and through exchanges — \$52.2m worth in last year's third quarter, up 67 per cent from [\\$31.3m the previous quarter](#). It advertises discounts for market makers who adopt early, to increase the pool of institutional buyers and sellers.

Some staff take XRP as part of their salaries, and Ripple's founders are enjoying a boost. Forbes reported that Chris Larsen, co-founder and former chief executive, personally owns 5.19bn XRP. According to cryptocurrency tracker Coinmarketcap, Mr Larsen's holding is at present worth more than \$8bn.

Since Ripple compared itself to Uber and Airbnb, XRP's price has hit \$3.80 highs but also fallen to just above \$1 before rebounding this week, the volatility reflecting speculative cryptocurrency markets.

When Coinmarketcap removed Korean exchanges from its market capitalisation calculations last Monday, Ripple's market cap crashed from \$124bn to \$101bn, revealing South Korea's upward influence on XRP and triggering a panicked sell-off.

XRP's volatile price responded enthusiastically to dubiously sourced news, climbing in December amid later debunked rumours that XRP would be listed on a key cryptocurrency trading platform, and recently rising 20 per cent after an unsubstantiated, anonymous report suggested that Western Union might adopt Ripple technology.

XRP's speculative price rollercoaster "seems to represent the perfect blend of cryptocurrency hype and optimism", writes Eric Turner, S&P Global Market Intelligence analyst.

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Latest on Cryptocurrencies

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Currencies Markets Cryptocurrencies European banks

The Ripple effect



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JANUARY 5, 2018 6:20 AM

By: **Izabella Kaminska**

The term XRP or Ripple may have involuntarily entered your consciousness of late.

You probably know it's got something to do with crypto and/or blockchain but unless you're a diehard crypto obsessive chances are the Ripple phenomenon has passed you by.

So here's a tweet that perfectly sums what you need to know about Ripple and the absurd valuation of its tokens, XRP:

“

“Ripple is highly centralized & XRP is more akin to a PayPal account than a trustless system like bitcoin.... It's hard to come up w any rational reason why XRP exists in the Ripple protocol, other than as a means for Ripple to make money. Lots of money.”

<https://t.co/c52yl5joiG> (<https://t.co/c52yl5joiG>)

— Laura Shin (@laurashin) January 4, 2018 (https://twitter.com/laurashin/status/948755146955091968?ref_src=twsrc%5Etfw)

Some other things worth knowing about Ripple.

The venture is mired in [founder disputes](https://www.coindesk.com/bitstamp-court-1-million-dispute-ripple-jed-mccaleb/) (<https://www.coindesk.com/bitstamp-court-1-million-dispute-ripple-jed-mccaleb/>), which are always fun, especially when legacy holdings of suddenly insanely-valued crypto tokens come into play and turn obscure technologists into the [world's richest men overnight](https://www.cnbc.com/2018/01/04/ripple-co-founder-is-now-richer-than-the-google-founders-on-paper.html). (<https://www.cnbc.com/2018/01/04/ripple-co-founder-is-now-richer-than-the-google-founders-on-paper.html>)

Ripple's former CEO, Chris Larsen, now richer than Mark Zuckerberg because of the appreciation of XRP, is incidentally also the sort of guy who likes to attend Davos, which is

where we met him in January 2016.

But Ripple is also the crypto enterprise that *really* likes to suck-up to the established finance industry. As a result, the venture has over the years pivoted countless times to accommodate the needs/requests of the banking community. This ongoing accommodation has ensured the project has always sat uncomfortably in the crypto community. It is both a child of the crypto/blockchain phenomenon and an egregious sell-out with respect to the principles of that movement, especially with regards to decentralisation.

XRP, the Ripple token, is unlike any other crypto token in the market. It is entirely centrally controlled, operating more like an ETF unit than anything else since the issuer has the capacity to release or absorb (pre-mined) tokens in accordance with their valuation agenda. More egregiously though, the token plays little part in Ripple's central business case. For the most part it's just a cute add-on. A game, which for some unknown reason has become the central value proposition in the project these days. All very, very weird.

That's not to say Ripple didn't want the token to play a central role in its business case, it's just that their vision of XRP becoming a bridging or conduit currency through which liquidity providers would de facto offer seamless and cheap FX settlement services to the world never really caught on with industry. Yes, technically the potential is still there. But that's not what Ripple's banking partnerships are all about at all. They're focused instead on messaging protocols (which record payments on a shared ledger) that compete directly with Swift and for which, we are told, tokens are not required.

Okay. But what if XRP — “the bridging currency” — did become the central value proposition in the model in the future? Wouldn't this constitute a truly innovative breakthrough?

Not really.

The bridging-currency proposition is centred on the idea of outsourcing FX settlement to third-party market-makers/liquidity providers, who have an incentive to step into the market whenever relative FX valuations are out of whack vis-a-vis XRP, thus reducing transaction costs.

Ripple “the settlement tech” is thus arbitrage tech, highly dependent on the whims, activities and behaviours of its liquidity provider community. This means it's partial to the same exact problems HFT suffers from: namely, the fact there's no guarantee liquidity providers will always be around when you really need them. In FX this sort of solution doesn't really cut the mustard. People want a dependable FX service, not one that's subject to the whims of unknown third-party participants.

A bit of historical context is useful at this point, since what XRP really aims to do (we think) is copycat the role played by the offshore dollar in the days before the euro.

In a similar vein to what cryptocurrency is trying to do today, the dollar-denominated liabilities of non-US banks (eurodollars) from the 60s and 70s onwards made a name for themselves precisely because they could skirt US capital, reserve and liquidity regulations. This gave those entities offering such deposits an immense competitive advantage over US banks, turning eurodollars into the funding currency of choice for global trade and commerce.

But it was not the only side effect.

As the BIS' Patrick McGuire [has argued \(https://www.bis.org/publ/qtrpdf/r_qto409g.pdf\)](https://www.bis.org/publ/qtrpdf/r_qto409g.pdf) compellingly before, the competitive advantage resulted in huge sums of deposits (which would otherwise be placed in the US) heading into eurobanks and the London financial centre in particular. The dollar glut ensured the mass availability of a neutral and capital-market oriented currency, against which all other currencies could be valued and traded against in a clear and understandable way, something which improved liquidity and reduced cost.

Accordingly, instead of exchanging Deutsche marks for sterling or francs directly, FX traders would price and trade FX against the eurodollar, which represented a common liquid standard across all pairs. In this way the eurodollar became the bridging currency for most FX activity, and in so doing over time created even more demand for eurodollar liquidity (now needed by the interbank market for its FX settlement services).

Nonetheless, this dependency on the eurodollar — still technically anchored to US policy whims despite being a de facto free currency abroad — grated European technocrats, who didn't appreciate the lack of control. Soon enough, the vision of a common currency which could both eliminate FX frictions between member states and be controlled and issued by European entities hence came to dominate instead. The rest, as they say, is history.

As McGuire notes, by the 1990s the rise of the common currency did indeed begin to have an impact on eurodollar interbank demand and hence also the recycling of eurodollars through the system:

“

The timing of the decline in the interbank recycling rate roughly coincides with the introduction of the euro. This is likely to have contributed to a decline in the volume of foreign exchange-related transactions in the interbank market and in turn the recycling rate for dollar deposits. **This relationship reflected the fact that**

throughout the 1970s and 1980s, almost all trading of convertible currencies used the US dollar as a conduit currency. Moreover, banks located in London have generally been the dominant players in the foreign exchange market.

To that end, dare we say it, the euro far pre-dated XRP as a technocratically constructed (synthetic) currency for the purpose of eliminating cross-border FX risk and cost.

The difference is, of course, the euro took decades to develop, was supported by sovereign governments (including their balance sheets) and was legally mandated. Even with that support, as we now know, it was not impervious to changing market conditions and sentiments.

And yet, to succeed in its bridging currency aim, XRP would have to do for global FX what the euro did for European FX but better and without any of the legal support or political will that drove the euro project. XRP adoption instead would have to be entirely market led.

Given the market has a plethora of neutral “bridging currencies” it can choose from (if it was indeed inclined to drop the eurodollar as a conduit currency), this is no small feat. Indeed, chances are a conduit currency which has the incidental side-effect of turning founders into the world’s most powerful men is likely to be considered flawed from the outset.

And yet, only the prospect that it can achieve this objective can justify its current \$129bn valuation.

Hence go figure about the sustainability of the current run-up in price.



(Chart via coinmarketcap.com)

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Figure 2: Annual interest accrued on all outstanding student loans by financial year

Figure 2: Annual interest accrued on all outstanding student loans by financial year



The strange treatment of student loans masks government spending

6 HOURS AGO By: Thomas Hale

2

COMMENTS (61)

7/18/2018

The Ripple Effect - Ft. Alphaville

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Mysterion

Jan 8, 2018

Great stuff. Keep it up Izabella.

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erols

Jan 6, 2018

it's a pump and dump. Why else would it's CEO personally hold 60% of all XRP that exist?

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MarionE

Jan 6, 2018

As I understand, it is part of the plan to manage volatility. Obviously, they are trying to get richer in the process, but if they hold a controlling percentage, they can help prevent major swings in valuation.

Part of the problem with Bitcoin is that early investors hold huge sums and when they cash in it makes the price dive. Other times it grows at an unstable pace, which is usually followed by significant drops. That is all part of the natural growth and correction of Bitcoin, but XRP appears to be designed to reduce the drastic swings. If the price is moving upward too fast, they can sell off some their coins to steady the pace, instead of what we see when holders of large sums of Bitcoin just drop a lot of coins all at once. Of course, the holders of Ripple could do the same thing, but that's not really any different from any other crypto, other than Ripple is actually a little more transparent about the large holders and can be held socially accountable.

While all crypto is a gamble, Ripple's institutional backing could result in long term stability and adoption. The thing to remember is that XRP is being marketed to financial institutions, so if all goes as seemingly planned, it will behave in what ever way they would prefer. Above all, I think XRP is an experiment to see whether or not cryptocurrency can be managed in a sort of fiat system. While a lot of people are drawn to other coins for privacy or protection from institutional influence, XRP is geared around convenience only. My guess would be that if Ripple maintains XRP in the long game, it could be the first cryptocurrency that banks actually offer to hold and pay interest.

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MrVengeance

Jan 7, 2018

@erols CEO doesn't personally hold 60% of all XRP, Brad Garlinghouse (CEO) has about a 5% stake in the company. You're severely misinformed. The 60b you are referring to, is 55b that has been locked up in 'escrow'. Ripple is allowed to release a maximum of 1b XRP per month, but currently are selling anywhere between 50-200m XRP per month (at \$0.20 valuation it was 200-300m per month). The remaining 5b has been put aside to pay a company R3 in case Ripple loses in court over an old business deal.

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NancyNakamoto

Jan 7, 2018

@MrVengeance @erols So as long as the belief in XRP holds up, they are getting between \$160m per \$650m per month for something that has no value in payments processing and gives no stake in Ripple Labs. Do you have a source for the release numbers? That is an awful lot of money for having made up money of no use. It would be enough to pay for armies of PR people or advocates of XRP to hang around in forums talking up the price, encouraging people to "HODL" or Pump as they say in those forums. Not that I am suggesting that is happening.

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MRH

Jan 6, 2018

I thought about these "Cryptocurrencies" for a few times, and I never see why they should have any value.

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BibbleBobl

Jan 7, 2018

@MRH Great for money laundering in a micro payment kind of way. Did I say that out loud?

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MrVengeance

Jan 7, 2018

@MRH about 99% of them don't have a reason to be of value. It's about being part of that 1% that will have tremendous value, like buying a Google or Apple share when it's at \$1. Everyone has their own opinion about who will be that 1% but for me personally it's all about who solves an actual problem, is there a great team behind it, would a project be able to make money without token/coinsale.

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Wonka

Jan 7, 2018

Cash is the best micro payment way for money laundering actually, all ripple or bitcoin transactions are public and traceable, cash will stay the favorite way for laundering.

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Owerto

Jan 6, 2018

Don't think Laura shin or this article understands the difference between payment and settlement. XRP (settlement) is never like Bitcoin (payment). And while xCurrent does not need XRP, banks can save 30% on fees and quicker using XRP to settle cross border transactions. Recent price increase has gone over the top but there is a use for XRP

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David Gerard

Jan 6, 2018

@Owerto In this context, "can" is a word meaning "they don't". It *could* be that banks just aren't that interested in money and are happy to leave it on the floor, or it *could* be that there's some reason they're not touching this thing. Why would that be?

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NancyNakamoto

Jan 6, 2018

@Owerto Please explain what you think is the difference between payment and settlement. I am very keen to understand what you think they mean

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MarionE

Jan 6, 2018

Could it just be that it's part of their branding? Ripple, as a company is pretty solid, and their relationship with financial institutions affords them benefits from being at the forefront of the rise of cryptocurrency.

It would seem they will be the first in line, with an ability to abide any regulation that may come about. It's not inconceivable that a change in politics could call a lot of cryptocurrencies into question. It's likely a safe bet Ripple has the perfect relationship with the financial sector to appease them and thereby continue to function as a currency, even through a regulatory crackdown. While a major incentive for cryptocurrency is to avoid fiat currency, most people are less concerned about the anonymity other 'coins' are built around. Ripple is the only coin that offers the warm and fuzzy feeling of security that comes with a centralized system, while still embracing some of the freedom and independence cryptocurrency offers. As crypto reaches the skeptics, Ripple may have that tethered feeling to the old system many need to make the leap.

All that said, one additional thing to consider is that Ripple has a lot riding on their ability to maintain the stability of XRP. It may just be that it's a demonstration of their ability to manage a cryptocurrency volatility, when banks are absolutely freaking out about how unmanageable it all seems. Whether it was their intention or not, XRP is now synonymous with the company, and that means its reputation is at stake.

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MrVengeance

Jan 7, 2018

@MarionE What is your source of information when you say "when banks are absolutely freaking out about how unmanageable it all seems"? Market makers like SBI are willing to take on the volatility risks for banks, so what could they possibly be freaking out about?

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Calvan Clyne

Jan 5, 2018

Ripples Marcus Treacher is on Chaps board.....

<https://ripple.com/insights/ripple-executive-marcus-treacher-appointed-chaps-board/>

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Calvan Clyne

Jan 5, 2018

What I think everyone is forgetting.....Ripples focus is at present on banks and settlement and they are leading the way. However, as time goes on I feel Ripple and other third parties will focus on the consumer level.

Settlement takes 3 seconds. XRP makes settlement cheaper and fast. Your trying to tell me the banks wont use something that is cheaper and faster and also can provide the liquidity needed. JP Morgan went to Ripples offices a month or two back. There were also tests done with CHAPS and the Bank Of England. Real money will move through ripplenet and XRP will be the vehicle.

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Rob Mahan

Jan 5, 2018

Why is XRP worth \$92bn? It isn't used in the transfer of currency.

It pays no dividend, nor will it ever.

There is no economic interest or control over the company doing this. SWIFT annual revenue c €745m, net profit €26.2m. vs XRP with €92bn MCAP - even if XRP is 10X more efficient and cuts revenue to (say) €74.5m and net profit stays the same - how do you get to the valuation ?

Even if you include bank fees and say revenue should be 10X higher - again how do you get the valuation ?

Either I dont understand this or the world has gone mad.....

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**kestrell**

Jan 6, 2018

@Rob Mahan Well, Ripple has billions of USDollars of cryptocurrencies on its Balance Sheet ... ! To which I say, so what ? This asset amount is insufficient to support a 92 bio. Euro market capitalisation. I question why Ripple has to translate its crypto-currency assets back into USDollars. Maybe USDollars are important to Ripple, after all, or are crypto-currencies redundant on a B/S ? Visa and MasterCard have debit cards, which are instantaneous in debit/credit/transfer transactions in nearly all currencies under the sun. So why Ripple/XRP is so much more valuable - for its speedier transfer of funds than SWIFT - beats the daylight out of me. Maybe, Visa and MasterCard's share prices are woefully undervalued compared to this outfit's. Frankly, I believe they are way undervalued (if Ripple stays up here and increases in value).

I agree with your last paragraph wholeheartedly. Mr Sessions, head of the US Judiciary is right wanting to roll back the legal use of marijuana. If he can, we may get clearer heads to explain the why's and what's of the Ripple's of our digitised world..

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MrVengeance

Jan 7, 2018

@Rob Mahan I'll give you some insights!

Ripple's business model resolves around XRP increasing in value, not in generating income through services; A lead manager at Ripple literally said "We really only charged because we could, it filtered out non-serious partners, and people have a stronger incentive to get value out of something if they paid for it."

In fact their dream scenario would be for SWIFT to make a deal with Ripple where all their banks get to use RippleNet for free, maybe even paying SWIFT. Don't forget SWIFT is owned by the banks themselves so there is no incentive for SWIFT itself to make (much) profit. It would fit Ripple's strategy perfectly, and Ripple would even be willing to charge no fees for their services in exchange for transaction volume using XRP.

As a vessel of value the XRP valuation will increase with adoption by banks, market makers, financial institution and household names (large international retailers). Imagine you need to transfer \$30 with the current XRP price of \$3, that transaction then only requires 3 XRP. If you need to change \$1 trillion, you'd have to use a too big share of the market. Take Bitcoin as example, around 2010 it was unthinkable to buy a house with Bitcoins. In 2018 you'd only need 20-30 bitcoins to make the same transaction.

Ripple is about saving banks money on transaction fees by offering instant settlement and adding liquidity (by removing the need for nostros/vostros accounts).

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Wonka

Jan 7, 2018

You clearly don't understand cryptocurencies to talk about market cap and dividends. Your ignorance made my day, so thank you.

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FTp-sued-o

Jan 5, 2018

Cryptocurrencies are, in my opinion, worthless. I've seen these charts before, around 2011, on almost every small cap AIM listed miner, of which hundreds sprang up in 2010. These were nearly all run by fraudsters or cowboys, a small

segment of them by delusional fantasists who actually believed a Licence to dig a hole in the ground totally ignored by every major mining group was an overlooked Escondido in the making. In fact, they were just a con. I believe exactly the same thing is happening now. Why does the coinbase website say "operating a partially degraded service" and "some transactions are taking 12 hours to be added to the block chain" - isn't that a red flag?

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FTp-sued-o

Jan 5, 2018

They even use the same terminology - mining currencies. Has anyone run a check to see how many ex AIM and TSX listed mining CEOs are now CEOs of Cryptocurrency companies?

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Integrrious

Jan 5, 2018

"To that end, dare we say it, the euro far pre-dated XRP as a technocratically constructed (synthetic) currency for the purpose of eliminating cross-border FX risk and cost."

A recent and more general view of some FX : Meet current account Triffin and fiscal Triffin.

Triffin: dilemma or myth?

<https://www.bis.org/publ/work684.htm>

Triffin held that there is an inherent conflict in a national currency also serving as a global reserve currency, because domestic and international policy goals do not generally match.

One, the dollar's reserve role required US current account deficits. This current account Triffin is popular, but anachronistic, and flawed in logic and fact. Nevertheless, it pops up in debates over the euro's and the renminbi's reserve roles.

A fiscal Triffin, global demand for safe assets will either remain dangerously unsatisfied, or force excessive US fiscal debt. Less flawed, this story posits implausibly inflexible demand for and supply of safe assets.

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Grey Swan

Jan 5, 2018

Thanks Izabella, great article and am appreciating the in depth views on cryptos from FT recently.

Few points I have and am intrigued in others thoughts:

Firstly, as an individual I think I can safely say I have never personally used Eurodollar to pay a foreign bill or move money to a foreign bank account so for me there is value in being able to do this (as with any crypto really, but XRP fits the bill best) so retail use case is large if people adopt it ahead of bitcoin etc.

Secondly, there are several banks in Asia who are by the sounds of things putting XRP into production usage, and if it takes off the market may dictate its use case with institutions so this is a "watch this space" area.

Thirdly, although it was a while back there were articles flying around that Chris Larsen was donating his XRP7bn to the underbanked project. IF this is true I'm sure he will clarify shortly, if not as you mention this will detract from the

technology reporting.

Finally, both the company and CEO have just claimed they have 3/5 of the top money transfer companies lined up to use XRP in 2018. Obviously they could be false claims, but I'm willing u give them benefit of the doubt under the circumstances.

<https://twitter.com/ripple/status/949131179797626880>

Clearly the recent growth suggests it's overbought and due a correction, but it's almost impossible to put a reliable valuation on it at this point in time until there is evidence of any of its potential use cases.

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sardonic Jan 5, 2018

If I may add: RIP Ripple.

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Davros Jan 5, 2018

Fun thing about Ripple is it's a real legal entity with an office where you can send angry letters from solicitors.

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Kobayachi Jan 5, 2018

I say BRAVO Ripple, you managed to make the current Bitcoin valuation look reasonable, dare I even say undervalued.

PS: Even remotely considering that Ripple could one day be the new Eurodollar and a provider of global liquidity is just absurd.

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Ecoute Sauvage Jan 5, 2018

@Kobayachi the eurodollar market had nothing to do with ease of FX transactions, and everything to do with regulation Q - as anyone who ventures to write on the subject should know. And by the time Q was abolished the euromarkets were already well developed and were not affected.

The euro is even less of a Ripple "precursor", even though FX cost elimination was a primary incentive for its creation. Back in the day, the FT was as adamantly opposed to the euro's adoption as it is to cryptocurrencies today. Some things never change.

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Integrrious Jan 5, 2018

@Kobayachi

Are you the hot dog eater? I always place his reign, and not 30 Rock, as the zenith of Japans post War influence in America.

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Integrrious

Jan 5, 2018

@Ecouste Sauvage @Kobayachi

"Back in the day, the FT was as adamantly opposed to the euro's adoption..."

Yes, and now the once Pride of Threadneedle curls into a fetal position at the thought of Brexit.

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KKR

Jan 5, 2018

Spot on article, Ripple is reaching taking retail investors for a ride with XRP, as most of them will not know the difference between the Ripple and XRP.

They see new about banks collaborating with Ripple and then panic buy XRP (FOMO in crypto terms), when in reality the banks themselves will not even use it.

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@CellBlock99

Jan 5, 2018

Anything that makes payments cheaper is a big thumbs up. Ripple is the new toy that sits on top of banks' creaking cobol cobweb stacks of swift and other tick box protocols. XRP is the icing in the top.

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mojomogoz

Jan 5, 2018

So Ripple is just a bad euro which is in turn an inferior eurodollar....and the eurodollar is not really in the best of health either....although how a phantom can be in bad health is a paradoxical conundrum that really should blow our tiny little minds.

The eurodollar does not in fact exist. It is the most important organic networked created unreality in history (well aside from God). Yet it is super important and integral to our financial good health...which perhaps hints at why our financial good health is just a teasing phantasm.

The failure of the eurodollar market a decade ago has caused all the real money miners out there (i.e. central banks) to send their real money (lets not talk fiat vs hard money at the moment and who's real!) to heal the broken unreality.

So Ripple are trying to offer a more explicit bridging currency that is more tangible yet independent of official backing or mega institution backing.

Conclusion: They seem to be taking a mega risk that we are ready for reality and want to embrace it. Seems a bit pre-industrial to me.

Okay? Clear?

mojosense out

xxx

PS I think this overall discussion must lead us to mad yet increasingly obvious conclusion that all crypto is US govt backed experiment to find a way to de-dollarise the world without passing the financial hegemon baton to the Chinese.

Only joking :)or am I?

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SurveySerf

Jan 5, 2018

@mojomogoz I think you might be close to the truth.

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CryptoKitties

Jan 5, 2018

In crypto terms : FUD always follows FOMO

XRP is not a virtual currency, it's a digital asset

Ripple and the use of XRP is going to modernize the financial architecture which is currently obsolete (SWIFT)

Velocity and scalability is the future of any transaction and Ripple is far ahead

Bitcoin is a nice monetary utopia : 0,06% of adresses own 60,6% of the total supply of bitcoin...genuine decentralization when a thousand people can do wathever they want with the price. Proof of work has major flaws beside energy waste

Please do your own research (consensus ledger, escrow, etc) before posting

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#REF!

Jan 5, 2018

@CryptoKitties Honest question to you here. I could see why one would see Ripple as a contender to modernise B2B payments away from SWIFT, via a quicker platform for trusted transactions, basally cleaning up information flow. I don't see how XRP makes any difference to that, how is XRP relevant?

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CryptoKitties

Jan 5, 2018

@#REF! @CryptoKitties

XRP is not competing with fiat currency

XRP is relevant because it allows banks to optimize their resources (without having to pre-fund nostro accounts)

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NancyNakamoto

Jan 5, 2018

You forgot to say HODL (as well as FUD and FOMO) which would have clinched all your arguments and your commandment not to post anything that didn't satisfy you.

So how come the public RippleNet (which uses XRP - whatever you describe it as) has never really taken off for anything other than Crypto?

The fact that Bitcoin is technically, legally and economically garbage does not make Ripple or XRP worthwhile.

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fish

Jan 5, 2018

I wonder what Ryan Fugger makes of all this? It was him that invented Ripple, not Larsen et al.

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Cojock

Jan 5, 2018

@fish As I recall (I've been on the Ripple google group since it began), there were never any tokens involved until Ryan parted company with whatever IP there was in Ripple.

The most interesting sorta Ripple fork I recall was Evgeni Pandurski's circular multilateral barter

<http://p2pfoundation.ning.com/profiles/blogs/circular-multilateral-barter-1>

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NancyNakamoto

Jan 5, 2018

The Ripple company/founders could potentially make vastly more from making the world believe XRP is a crossing currency required for international payments and settlements than from actually running a payments network.

Here are two reality checks for those who dream of Ripple Labs and/or XRP being worth hundreds of billions

1. How much was SWIFT's revenue in 2016?

€754m with a profit of €26m

2. How much USD to JPY payments did RippleNet move on January 2nd?

\$9,272

There are some pretty big incentives to pump up the hype and price around XRP

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#REF!

Jan 5, 2018

@Polybius very good post. SWIFT does > 30m messages a day. Not easy to find volume of funds moved, but one can assume a conservative av transaction size and shows the contrast

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David Gerard

Jan 5, 2018

@Polybius That's brilliant. Do you have a cite handy for those numbers? (I fully believe them, I just want to be able to use the figures myself in confidence.)

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Nancy Nakamoto

Jan 5, 2018

Sources

SWIFT annual review, also has a wealth of useful information

<https://www.swift.com/about-us/financials>

Ripple has great stats, they seem to move vast amounts of crypto but precious little within currency or cross border movements of real world currency. Same picture for years.

<https://xrpcharts.ripple.com/#/>

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<https://www.wsj.com/articles/ether-shouldnt-be-subject-to-sec-regulation-official-says-1528993984>

MARKETS

Ether Shouldn't Be Subject to SEC Regulation, Official Says

Remarks indicate cryptocurrency is clear from oversight that could have imposed significant requirements on foundation



An illustration of an ethereum 'coin.' William Hinman, the U.S. Securities and Exchange Commission corporate finance director, said Thursday that 'current offers and sales of ether are not securities transactions.' PHOTO: JACK TAYLOR/GETTY IMAGES

By Dave Michaels

Updated June 14, 2018 2:08 p.m. ET

The world's second-most valuable cryptocurrency isn't an investment that should be regulated as stocks and bonds are, a senior U.S. regulator said Thursday.

The remarks, made by a top Securities and Exchange Commission official, indicate ether is clear from SEC oversight that could have imposed significant regulatory scrutiny on the foundation and programmers involved with creating it in 2014. Ether is a cryptocurrency, on par with bitcoin, that isn't subject to the extensive investor-protection rules the securities regulator enforces, SEC Corporation Finance Director William Hinman said.

"Based on my understanding of the present state of ether, the Ethereum network and its decentralized structure, current offers and sales of ether are not securities transactions," Mr. Hinman said in remarks prepared for a San Francisco conference.

The SEC and other regulators had been examining whether ether's founders are so central to its creation and value that the asset should be considered a security, akin to stocks, The Wall Street Journal reported in May. Gary Gensler, an influential former regulator who led the Commodity Futures Trading Commission under the Obama administration, had said there was a "strong case" that ether was among a group of "noncompliant securities."

Mr. Hinman's remarks effectively remove that cloud, giving many trading platforms and investors certainty that they aren't breaking the law by holding or trading it. The price of ether spiked from about \$469 just before the SEC posted the speech on its website, to \$513 at about 1:30 p.m., according to data from coinmarketcap.com.

Ether plays a central role on a decentralized software network on which other applications have been built. Ether is the fuel of the platform, used to reward computers that execute tasks for the applications.

Had it been deemed a security, the process of moving it between users could have involved much more cumbersome regulation, said Jerry Brito, executive director of Coin Center, a nonprofit that advocates for the cryptocurrency market and lobbies policy makers about it.

Many of the applications built for the Ethereum network have their own digital coins that could be considered securities. The SEC has “dozens of investigations” probing such deals, including whether the firms behind the applications and coins violated securities laws by raising money from investors without giving them required business disclosures, SEC enforcement co-director Steven Peikin told House lawmakers in May.

Mr. Hinman said it was his view that bitcoin also isn’t a security, something that other SEC officials have previously indicated. Mr. Hinman didn’t address any other virtual currencies by name.

“Over time, there may be other sufficiently decentralized networks and systems where regulating the tokens or coins that function on them as securities may not be required,” Mr. Hinman said.

Mr. Hinman outlined several factors that would lend credence to the argument that a digital token or coin isn’t a security. Those include whether it was bought to use on a decentralized software network, and not to score a huge gain from trading on cryptocurrency exchanges, he said.

“This speech is a lot of the clarity that folks have been clamoring for,” Mr. Brito said.

Mr. Brito said he doesn’t expect the good news from the SEC to herald a new boom in token sales, which firms have recently structured as private investments restricted to wealthy investors. One condition of those private sales is that rich investors hand money to the firm, but don’t immediately receive the digital tokens.

Instead, the coins are only distributed after the company’s software application is operational. Many firms hope the structure convinces regulators that the coins don’t represent stakes in a business, but rather “tokens” that people use to access the decentralized software program.

Mr. Hinman didn’t endorse that concept in his speech. Instead, he said, some projects might become decentralized enough that the tokens’ value doesn’t depend on the creators, and could be free from securities regulation. Other projects might never reach that point, he said, and thus could be subject to investor-protection laws.

Write to Dave Michaels at dave.michaels@wsj.com

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